Pork Nova Scotia/NS Agriculture and Fisheries
Joint Committee on the Future of the Nova Scotia Hog Industry

Report to
Deputy Minister, Nova Scotia Agriculture and Fisheries

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Respectfully submitted by:

Joint Committee on the Future of the Nova Scotia Hog Industry

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Summary of Recommendations

1. **Revenue enhancement through innovation**
   - Identify innovative opportunities that will diversify Pork Nova Scotia's sales mix and substantially increase producer returns
   - Investigate value added pork products

2. **Industry-owned sow facility**
   - Establish integrated industry weanling production facility

3. **Manure Management and Environmental Compliance:**
   - Place high priority on Atlantic Swine Research Partnership and Innovative Waste Management Chair
   - Focus government programs on manure management, nutrient planning and environmental compliance

4. **Improvement in traditional markets:**
   - Investigate all opportunities for processing of live hogs
   - Promote pork as a healthy lifestyle choice

5. **Farm Management Analysis Project (FMAP):**
   - Encourage hog producers to use FMAP as a management tool
   - Expand on current data and develop benchmark cost and productivity standards

6. **Hog loan program:**
   - Continue and further develop the 2002/03 Hog Loan Program

7. **Risk management programs:**
   - Encourage producers to take full advantage of NISA and other risk management programs
   - Promote risk management programs, inform producers on their optimum use and explain that NISA or its successor is a stabilizer rather than an income supplement
   - Utilize fiscal resources under the 2003-2008 Agricultural Policy Framework in the most effective way possible for the benefit of the hog industry

8. **Industry capital requirements:**
   - Increase Farm Loan Board loan limit
   - Continue, expand and evaluate New Entrants to Agriculture Program

9. **Feed transportation costs:**
   - Develop strategies to ensure a competitive grain supply

Introduction

The Joint Committee was formed concurrently with Pork Nova Scotia's 2002 request to government for industry assistance in the face of a low market prices. The Committee's objective was to assess the pork industry's business climate in Nova Scotia and identify medium to long-term strategies that will contribute to a self-sustaining industry.

The Committee reviewed all aspects of pork production in Nova Scotia. Discussions centered on the industry's inadequate producer returns, and on ways to improve these income levels to ensure survival and future growth in the hog industry.

In addition to the recommendations in this report, background on the pork industry is contained in Appendices 1-4.

Recommendations

1. **Revenue enhancement through innovation:**
   It is recommended that
   - **Pork Nova Scotia and Nova Scotia Agriculture and Fisheries immediately undertake a comprehensive study to identify innovative opportunities that will diversify Pork Nova Scotia's sales mix and substantially increase producer returns; and**

   - **Pork Nova Scotia and Nova Scotia Agriculture and Fisheries continue investigation of value added products such as the Natural Pork Study and investigative travel to New England.**

   It is envisioned that this recommendation be carried out through a combination of hiring the appropriate expertise and utilizing NSAF staff, and that Pork NS and government share the related cost. It is further envisioned that new opportunities will gradually enhance and diversify the industry's sales mix, with traditional marketing channels through processors continuing as the mainstay for the foreseeable future. The objective is to overcome the present producer income shortfall by several fold on a significant portion of production.

   In spite of producer efficiency and all support programs in place, hog producer returns are an average of $10-12 per hog less than required for stability and reinvestment at an industry "survival level". Much of the new investment in the industry over the past five years has been based on the presence of government programs that address this income shortfall. If the industry's income problem is not addressed, production will continue to decline. Pork Nova Scotia projects a decrease in production of 10,000 hogs (five per cent) in 2003.

   The Committee feels that addressing this basic shortfall in traditional markets will only serve to maintain the industry in "survival mode". Instead, a concerted effort is required to identify new market opportunities for substantially increased returns to producers.

2. **Industry-owned sow facility:**

2.1 It is recommended that Pork Nova Scotia and Nova Scotia Agriculture and Fisheries cooperate to establish an integrated industry weanling production facility, including corporate structure and financing options.

Pork Nova Scotia is investigating the feasibility of a producer-owned farrowing facility from which producers could buy high quality weanlings, allowing them to focus on finishing hogs and avoid replacing expensive farrowing facilities on their farms. This initiative to reduce unit cost of production complements the above recommendation to enhance market revenue.

Such an integrated system is expected to assist in farm succession by creating a more attractive individual farm investment scenario for the "next generation" This initiative is seen by Pork Nova Scotia as important for the sustainability of pork production and processing in Nova Scotia, and protection of the private and public investment in the industry.

Pork Nova Scotia has accepted a proposal by DGH Engineering to:

- evaluate economic and management considerations for member farms;
- evaluate facility size and type (conceivably 1500 sows);
- estimate capital cost;
- develop financing - cash flow, expected producer investment, number of investors required.

If there is enough producer interest and the proposal is sound, a second phase will involve moving forward with the project.

3. **<u>Manure Management and Environmental Compliance</u>:**
It is recommended that

3.1 the current proposal for the Atlantic Swine Research Partnership and the Innovative Waste Management Chair should be an industry research priority, supported financially by both Pork Nova Scotia and government, with consideration given to sharing the chair's mandate with other commodities; and

3.2 government programs that assist farm investment (both loans and non-repayable grants) should continue to focus on manure management, nutrient planning and environmental compliance, with cross compliance recognized as a necessary future component.

Public concerns over the management of environmental issues adds costs to producers. The issue of manure management is partly driven by consolidation and expansion of farms within the industry. Producers place a high priority on these issues but do not have extra revenue to cover the related costs.

Pork Nova Scotia, PEI Hog Marketing Board, and NB Pork have incorporated the Atlantic Swine Research Partnership (ASRP). Through a check-off system, each board has committed $25,000 in support of ASRP. ASRP is seeking $60,000 from each of the Atlantic provinces to support base funding and partnership initiatives. One of the initiatives is to establish an Innovative Waste Management Chair which will provide the Atlantic Canada swine industry with fundamental information and technologies on the management of agricultural wastes.

4. **Improvement in traditional markets:**
   It is recommended that Pork Nova Scotia continue to
   - **4.1 investigate all opportunities for processing of live hogs in order to maximize producer returns from traditional markets; and**
   - **4.2 promote pork as a healthy lifestyle choice, through its own promotion program and Canada Pork International.**

At present there is one main processor/ parent company (Maple Leaf Foods) which has integrated its Maritime processing. Fresh processing will continue at Larsen' Packers in Berwick, NS and value-added processing carried out at Hub Meat Packers in Moncton, NB. Maple Leaf is investigating and capturing new markets for Maritime pork. As a global marketer, it faces competitive pressures that affect its Maritime companies and the maritime producers of pork.

Depending on its success in capturing new markets for fresh pork, Larsen' could increase its demand for live hogs. While hogs may be purchased outside of Nova Scotia the industry would prefer to expand to meet any new demand. In addition, there may be opportunities for NS producers to supply other processors outside the province. A balance is needed to ensure that the future of the NS producers and processors is not threatened.

At present, NS hog production equals approximately 73% of consumption. While producers find it difficult to maintain the current production level through low price cycles, a long term increase from 220,000 to 250,000 hogs per year is needed to meet market demand and enhance processor and board volumes.

Substitute choice products in the meat case mean a tight pricing environment for pork products. Lower producer prices do not necessarily translate in higher meat case margins. Retailers are less likely to feature pork than chicken, as retailer and consumer perception is that there is less value-added pork than poultry and poultry has displaced pork as a substitute protein product.

Maritime consumers have good brand knowledge, particularly of Larsen products. Work is being done at the processor level to develop international markets for value-added pork products. As the NSAF study indicates, organic pork may be a niche opportunity, particularly in New England. The key issue is to achieve premiums that will compensate producers for

added units costs and lower productivity.

5. **Farm Management Analysis Project (FMAP):**

It is recommended that Pork Nova Scotia and Nova Scotia Agriculture and Fisheries

5.1 continue to support the FMAP program by encouraging more producers to use it as a management tool; and

5.2 expand on current data and develop benchmark cost and productivity standards.

FMAP is a management tool supported by Business Management and Economic Development, NSAF. It provides managers with complete financial and production summary, analysis of business performance from year-to-year and comparative analysis with similar farm businesses.

The most recent FMAP swine analysis was reviewed by the Committee and shows:

- farm consolidation and growth in farm size;
- strong productivity levels;
- carcass grade index and dressed weights on target;
- debt per sow increasing due to expansion and modernization;
- average debt/equity financing is 70/30;
- outside labour use by farms varies with price cycles (more hiring in higher return periods);
- smaller producers tend to be low cost producers due to low debt and more hands-on cost management; however, re-financing of these operations, as they currently exist, for the next generation is not considered viable.
- larger producers have higher debt service and depreciation costs but are considered to be better positioned for future industry consolidation due to modernization and economies of scale.

6. **Hog loan program:**

6.1 It is recommended that Pork Nova Scotia and Nova Scotia Agriculture and Fisheries cooperate to further develop the 2002/03 Hog Loan Program.

The existing loan program should be expanded and refined, and kept in place on an ongoing basis. This will create confidence in the industry by leveling market fluctuations with predictably available (and repayable) capital. A key aspect will be establishing appropriate and sustainable trigger and repayment price levels.

7. **Risk management programs:**

It is recommended that

7.1 Pork producers be encouraged to change their individual business structures as necessary to take full advantage of NISA and other risk management programs;

7.2 Nova Scotia Agriculture and Fisheries continue to promote risk management programs, in order to inform producers on their optimum use and explain that

NISA or its successor does not address the adequacy of income but rather stabilizes income levels; and

7.3 **Pork Nova Scotia and Nova Scotia Agriculture and Fisheries cooperate to utilize fiscal resources under the 2003-2008 Agricultural Policy Framework in the most effective way possible for the benefit of the hog industry.**

Market price cycles are an acknowledged reality in the hog sector. The hog industry has been one of the earlier and higher participating groups in NISA. NSAF Business Management and Economic Development staff undertook analysis to determine how well NISA should be able to help the producer stabilize their income, and how much the program's limits on eligible net sales (ENS) reduce its effectiveness. The analysis determined that NISA will work as an industry stabilizer with full participation, including the right farm business structure to maximize ENS limits.

By design, NISA stabilizes incomes within historical ranges, whether or not they are adequate. Producers estimate that, including program payments, producer returns are an average of $10-$12 per hog less than adequate for industry stability and reinvestment at a "survival" level (five year average is $137.68 per hog).

Other NISA issues include a lack of complete information or understanding on how NISA works and the perception that NISA payments are immediately available.

8. **<u>Industry capital requirements</u>:**
It is recommended that

8.1 **The current non-OIC Farm Loan Board loan limit be increased to better accommodate future farm capital requirements; and**

8.2 **the New Entrants to Agriculture Program be continued, expanded in size and improved through annual evaluations as to its effectiveness in a changing industry.**

Financial stress in the Nova Scotia hog industry is not new. Long term viability of this sector remains questionable given low margins and the financial impact of previous down turns in world market prices. Capital projects related to the hog industry, especially in improvements and new construction, tend to be high risk and require considerable patience from lenders involved in the industry. Continued consolidation within the industry, market fluctuations, and the need for replacement of existing facilities with more modern, labour-efficient operations will allow a number of the producers to enhance their opportunity for success.

A majority of today's hog producers will be retiring within a ten year period. Industry continuation and new investment is dependent on new committed entrants to the industry with access to adequate capital and a qualified labour force.

9. **Feed transportation costs:**

9.1 It is recommended that Pork Nova Scotia, Nova Scotia Agriculture and Fisheries and other feed grain using sectors work cooperatively to investigate and develop strategies to ensure a competitive grain supply, including:

- **maintaining data on feed grain usage and costs, and**
- **reviewing issues dealing with port costs.**

Access to feed grain supplies at competitive costs represents one of the most formidable challenges to be faced by the Nova Scotia hog industry. In fact, all sectors of the agricultural industry in Nova Scotia have a stake in that challenge because of a reliance on the industry infrastructure that is supported by the livestock and poultry sectors. It is not an over statement to suggest that unless Nova Scotian producers are guaranteed access to cost effective sources of feed grains and protein supplements Nova Scotia will lose its ability to supply its own markets with pork.

There is no current data available with respect to feed grain usage by livestock and poultry producers in Nova Scotia. There are no statistics available with respect to:

- how much feed grain is used;
- what classes of feed grains are being used;
- how feed grains are utilized, i.e., the amount of whole grains being used on farm and by the commercial feed milling industry;
- how feed grains are being transported into the province and within the province, and
- where feed grains originate.

A good data base, while admittedly a challenge to develop, would support the development of a feed grain strategy. Federal authorities indicate that there are no outstanding feed grain transportation issues with respect to shipments into Nova Scotia; however, issues such as port fees, navigation costs and pilotage fees continue to have a cost impact on livestock producers.

Conclusion

The Committee believes that the pork industry in Nova Scotia is at a crossroads. Actions taken or not taken today will determine whether Nova Scotia has a viable pork industry. Nova Scotia pork producers are some of the most efficient on the continent, as proven by their survival and their ability to produce to stringent market requirements. We believe that addressing the recommendations in this report will play a key part in ensuring the future of a strong pork industry.

It should be noted that in addition to this report, Pork Nova Scotia is in the process of updating its business plan to measure progress and set future goals. This report is seen as complementary to that plan.

Appendix 1

Nova Scotia Hog Industry - Market and Policy Environment

Pork Nova Scotia is the marketing agent for hogs in Nova Scotia and performs single desk pricing and marketing under authority of the Natural Products Act. National affiliations are with Canada Pork International and the Canadian Pork Council.

The Canadian and Nova Scotian pork industries operate in a North American free-market environment. Producer prices are ultimately based on the USDA Mandatory Price Report, plus adjustments for exchange rate and negotiated premium. Nova Scotia is recognized as the highest-cost pork production area in Canada. This is due to the relatively high cost of feed, which accounts for 60% of production costs.

Former government programs, most notably the Western Grain Transportation Act ("Crow Rate") in western Canada and Feed Freight Assistance in eastern Canada, placed Nova Scotia producers on a more equitable footing with other areas. With the decline of these programs since the 1970s and their elimination in the mid 1990s, Nova Scotia producers have had to bear the full cost of moving grains from their source. This has added $10 to $12 per hog to production costs in Nova Scotia.

A series of price-based stabilization programs assisted stability and growth in the industry through the 1980s and 1990s. The most recent of these, the Pork Risk Management Service (RMS), was a fund administered by Pork NS and paid into by producers, government and processors. As demand on the fund grew, contributors became concerned about its viability. Government analysis indicated that it was not sustainable. Contributions to the program were adjusted several time before RMS was eliminated in 2000, in favour of a federally cost-shared enhanced NISA for red meats. During the last low price cycle in hogs, in late 1998 and 1999, the RMS fund paid out over $8 million and accumulated a deficit of $3.5 million. The deficit was covered by federal-provincial safety net funds.

The current (2002-2003) low price cycle is the first in many years in which producers have been exposed to the entire effect of market conditions.

Appendix 2
Hog Industry Overview - 2001

Licensed producers - 92

Hogs marketed - 220,986 (85% Larsen/Hub, 7% Armstrong, 8% Antigonish)

Prominent counties - Digby (18%), Kings (60%)

Avg. weekly volume - 4,133

Avg. producer price - $1.81/kg (2002 = $1.35/kg) - $1.44 / kg. or $133.54 / hog @ 89.5 kg
109 index

Supply of NS consumption - 73 %

Farm value - $ 29.29 million in 2002

Est. economic value - >$100 million and 1500 jobs

Appendix 3
Highlights from Committee Survey of Hog Producers
October 2002

The Joint Committee conducted a survey of licensed hog producers to update information on the industry and develop benchmarks for measuring future change. The following is based on responses from 27 producers.

Farm structure -	44% corporation, 33% proprietorship 63% farrow to finish (range 45 - 900 sows) 30% feeder (range 400 - 14,000 per year)
Age of producers -	38% of producers are 45 - 55 years of age or more 30% planning retirement - 63% of these within five years
Succession -	67% no plan 75% within family
Age of facilities -	sow - 38% 30-40 years grower - 43% 20-30 years farrowing - 67% under 10 years weaner - 50% under 10 years
Expansion plans -	70% no 22% yes - 50% of these within 5 years (range $120,000 - $600,000)
Modernization -	43% no 26% yes - 43% of these within 5 years (range $50,000 to $1 m)
Land owned -	53%
Manure storage -	34% - seven months minimum 48% - agreement for disposal in place 50% - concrete pits
Producer issues - (5-year view)	27% age of facilities/capital upkeep 25% price or share of consumer dollar 22% environmental issues 7% qualified labour 7% future of Maple Leaf/dealing with one buyer

Appendix 4
Nova Scotia Hog Price Report 1990 - 2002

Per 100 kg	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Avg.
1990	1.2906	1.3519	1.4639	1.5199	1.6508	1.9588	1.8349	1.8726	1.6449	1.7288	1.6257	1.5615	1.6253
1991	1.4934	1.6151	1.5542	1.5161	1.6083	1.7229	1.6005	1.5838	1.3843	1.3728	1.2125	1.1958	1.4883
1992	1.1058	1.2319	1.2390	1.2672	1.3234	1.4482	1.4370	1.3616	1.3781	1.3887	1.4215	1.4581	1.3384
1993	1.3794	1.4387	1.4508	1.4954	1.5181	1.6153	1.5728	1.6054	1.6980	1.6665	1.5668	1.4808	1.5407
1994	1.5029	1.6757	1.6497	1.5999	1.6056	1.6067	1.6149	1.6054	1.4383	1.2299	1.1579	1.3475	1.5029
1995	1.3475	1.5057	1.4244	1.3452	1.3214	1.5154	1.7086	1.6936	1.7736	1.6673	1.4987	1.5615	1.5302
1996	1.5655	1.7006	1.7851	1.7853	1.9791	2.0849	1.9874	2.1647	2.0033	1.9870	1.8622	1.9400	1.9038
1997	1.8946	1.8999	1.7791	1.9200	2.1288	2.1199	2.1601	2.0781	1.8512	1.7496	1.6590	1.5551	1.8996
1998	1.2998	1.3774	1.3060	1.3492	1.5496	1.7396	1.5803	1.4672	1.2388	1.1757	0.8393	0.5985	1.2935
1999	0.6960	1.1199	1.0933	1.1389	1.3913	1.3955	1.2908	1.3896	1.3779	1.3144	1.3036	1.3942	1.2421
2000	1.3870	1.5063	1.5822	1.7585	1.9284	1.8769	1.9443	1.8427	1.6343	1.6638	1.5089	1.5247	1.6798
2001	1.4623	1.5196	1.7749	1.9601	2.0037	2.0905	2.1635	2.0970	1.9085	1.7836	1.5455	1.3947	1.8087
2002	1.5237	1.7189	1.6388	1.4014	1.4129	1.4542	1.6075	1.5592	1.1547	1.3312	1.2468	1.3491	1.4499
Avg.	**1.2738**	**1.4484**	**1.4790**	**1.5216**	**1.6572**	**1.7114**	**1.7173**	**1.6711**	**1.4628**	**1.4537**	**1.2888**	**1.2522**	**1.4948**

Year	Averages / Carcass (84.5 kg. 109 index)
1998	$119.13
1999	$114.40
2000	$154.72
2002	$166.59
2002	$133.54
5 year average	$137.68